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The Australia-India economic relationship: new strategies, new objectives

Sonia Arakkal

AUSTRALIA AND INDIA RETHINK THEIR ECONOMIC RELATIONSHIP

In December 2020, India launched its much-awaited Australia Economic Strategy (AES) report, authored by Anil Wadhwa, former secretary (East) of the Ministry of External Affairs (MEA). The AES is the only strategy report ever produced by the Indian government for a specific country, and it reciprocates Australia's India Economic Strategy to 2035 (IES) report of 2018, authored by Peter Varghese, the former head of the Department of Foreign Affairs and Trade.

The IES set a target for India to become one of Australia's top three export markets, to make India the third-largest destination in Asia for Australian outward investment, \$100 billion by 2035, and to establish a bigger, better trade basket with balanced trade relations between both countries.

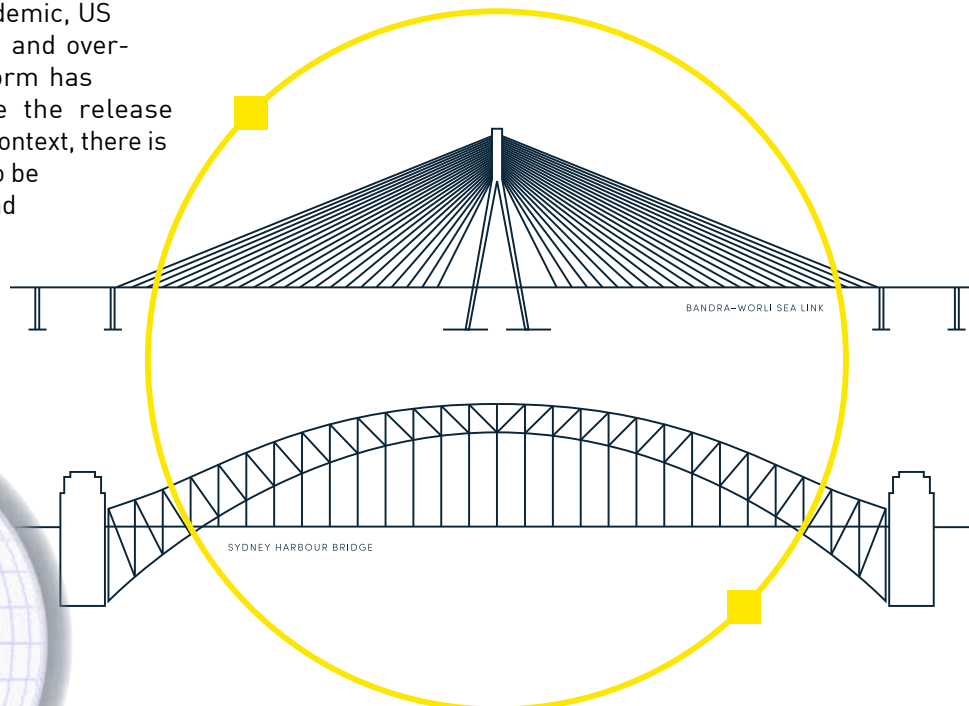
The AES is based on three pillars of resources, technology and services and research & innovation. Like the IES before it, the AES sets out the opportunities for bilateral trade and investment across focus and emerging sectors and highlights the key opportunities for Indian foreign direct investment into Australia.

Together, these strategies create a blueprint for the future of economic engagement between India and Australia. However, the COVID-19 pandemic, US China competition in the Indo-Pacific, and over-optimism about the prospect for reform has changed the strategic context since the release of the strategies. Given this changed context, there is a need for the strategies in the report to be prioritised differently. How Australia and India now exploit the union between their strategies will be crucial in shaping the next phase of their economic partnership.



AN INDIA ECONOMIC STRATEGY TO 2035

NAVIGATING FROM POTENTIAL TO DELIVERY



A report to the Australian Government
by Mr Peter N Varghese AO



SIMILAR PRIORITIES, DIFFERENT EMPHASES

There is considerable overlap between the twelve focus sectors in the AES, and the ten sectors identified in the IES. Importantly, Varghese identifies education as the flagship sector followed by three lead sectors and six promising sectors. The three lead sectors tourism, agribusiness and resources are chosen because they are areas where Australia is well positioned to become a top five partner of India. The six promising sectors represent areas where Australia can position itself as a niche provider in a large market. These are energy, health, financial services, infrastructure, sport, science and innovation.

On trade, the AES largely mirrors the IES in its outline of the opportunities for enhancing trade in goods and services in the traditional areas of education, natural resources, pharmaceuticals, software and IT.

But key differences occur in the emphasis placed on particular sectors. For example, the India report had a special focus on technology and services whereas the Australia report focused heavily on education. Understandably this difference reflects sectors where one country is set to gain more from the sector.

Distinctive framing of the economic opportunities indicates where to focus effort

India identifies new, emerging, sectors of significant potential including creative ideas for advancing ties in areas they have not traditionally engaged. Examples include IT-specific visas for talent flow, digital gaming, healthcare and aged-care support. When it comes to traditional sectors -machinery, chemical products, agricultural commodities and financial services- India's natural inclination for partners is the US or Europe. The emerging sectors listed in the India report should be seen as areas where Australia can carve out a competitive advantage and avoid competing with India's established economic partners in traditional domains.

Australia encourages a state-based approach, as an organising principal for how Australia can focus efforts in a market as large and diverse as India. This reflects the reality on the ground in India, where economic functions and regulation is highly decentralised and state governments are often the gatekeepers to business, trade and investment opportunities. This is in contrast to India's whole of Australia approach which sees the important economic levers centralised in Federal government.



COMPLEMENTARITIES PROVIDE A ROADMAP TO GROW THE RELATIONSHIP



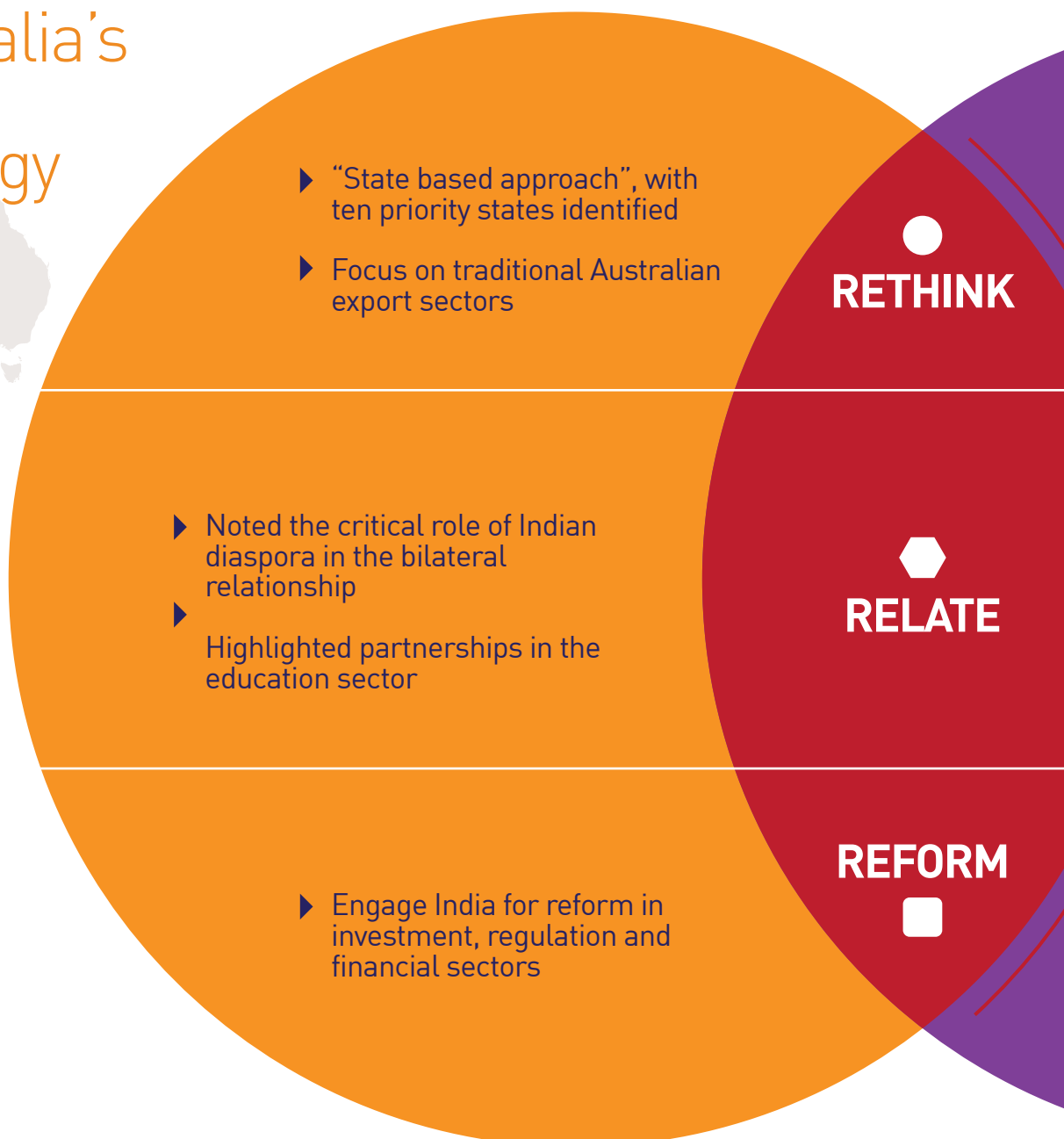
Developing the government, business and institutional architecture to accelerate and enable the India-Australia economic relationship are identified by both strategies as being crucial. In this regard, the complementarity in the strategies can be grouped into three themes.

First, a rethink of Australia's economic approach to India. Australia's success in Northeast Asian markets was underpinned by their demand for, and Australian supply

of, natural resources. But in the absence of a 'resource backbone' with India, Australia will have to develop a new strategy to economic engagement. The strategies identify an 'investment-first' approach, characterised by developing corporate Australia's interest in India's growth story, mutual investment funding across key sectors, and the deployment of start-up, innovation and research funds.

FIGURE 1 COMPARING AUSTRALIA AND INDIA'S ECONOMIC ENGAGEMENT STRATEGIES

Australia's India strategy



Second, the importance of how India and Australia relate to each other, whether that be Ministerial level leadership, partnerships between institutions or regular engagement through policy dialogues.

Third, both focused on reform by each government to enable two-way investment, trade and people flows. While India's protectionist tendencies and regulatory barriers have stood in the way of Australia's economic engagement, less focus has been given to regulatory barriers faced by Indian business in Australia. Importantly both reports noted the need for a renewed focus on negotiating an Australia-India free trade Agreement (FTA).

India's Australia strategy



- ▶ Whole of Australia approach
- ▶ Focus on emerging sectors with heavy emphasis on IT services

- ▶ Migration flows to Australia important
- ▶ Defence industry interactions prioritised

- ▶ Engage Australia for reform of banking, regulatory and visa issues

ENABLERS FOR REALISING SHARED OBJECTIVES

- ▶ An investment-first approach
 - ▶ R & D partnership focused
 - ▶ Developing corporate Australia's interest in India's growth story
- ⬡ ▶ Ministerial-level leadership crucial
 - ▶ Need for an inter-governmental coordination mechanism
 - ▶ Expanding diplomatic presence
 - ▶ Called for connectivity and direct flights
- ▶ Revive talks for trade and investment agreements
 - ▶ Review domestic tax and regulatory settings



IMPLEMENTING THE SHARED ECONOMIC VISION



Since the release of Australia's IES report in 2018, attention has been growing to the economic relationship with India. However, as Figure 2 shows, the fruits of this effort are yet to materialise in the trade relationship. This can be attributed to an initial lack of resources behind the IES in Canberra, Delhi's variable commitment to reform and a global trend toward economic protectionism caused by the instability of COVID-19.

Political will is strong, but implementation has been slow

FIGURE 2 AUSTRALIA'S TRADE WITH INDIA, 2006-20

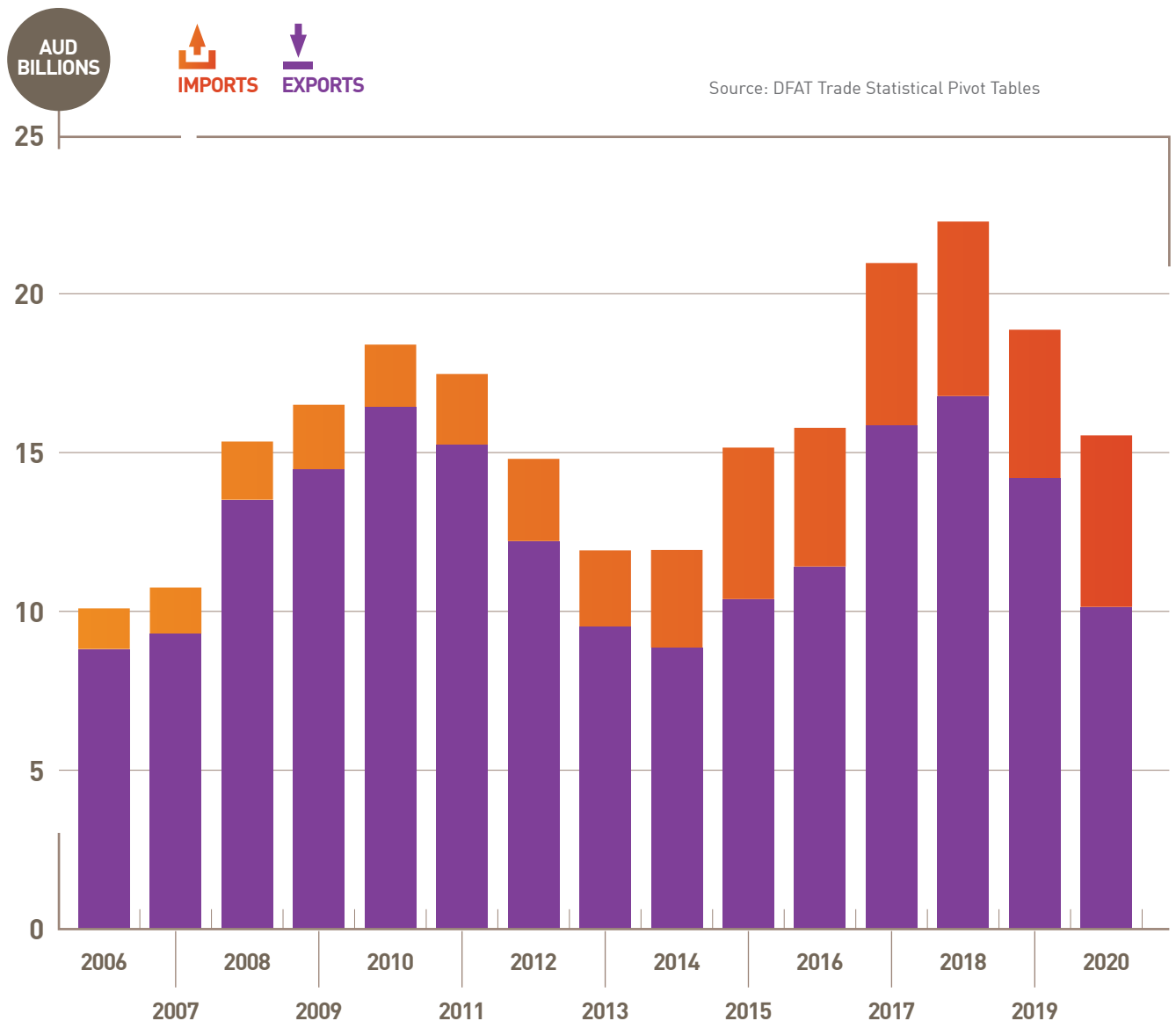


TABLE 1 PROGRESS ON IES
AND AES IMPLEMENTATION

REFORM

Building institutional ties with Indian agencies responsible for investment policy, regulation, and financial market reform has yet to occur.

Recommendation to resolve the funding issues faced by Indian businesses remain unactioned due to the State Bank of India not being an Approved Security Provider in Australia.

Negotiations for instruments covering investor protection, investment facilitation, or trade agreements yet to begin.

RELATE

Virtual summit between Prime Ministers in June 2020 highlighted commitment of political leadership behind the bilateral by elevating the partnership to a CSP.

A ministerial level implementation mechanism, such as an economic dialogue, has not been established.

Progress on direct flights, expanding diplomatic presence, visa reforms and relationship with the diaspora community have been impacted by border policies.

RETHINK

Established MOUs in Cyber and Critical Technologies, Mining and Critical Minerals, Mutual Logistics Support, Defence and Technology and Water Resources Management.

Establishment of the Australia India Business Exchange (AIB-X) by Austrade.

Other investment promotion related report recommendations remain unactioned.

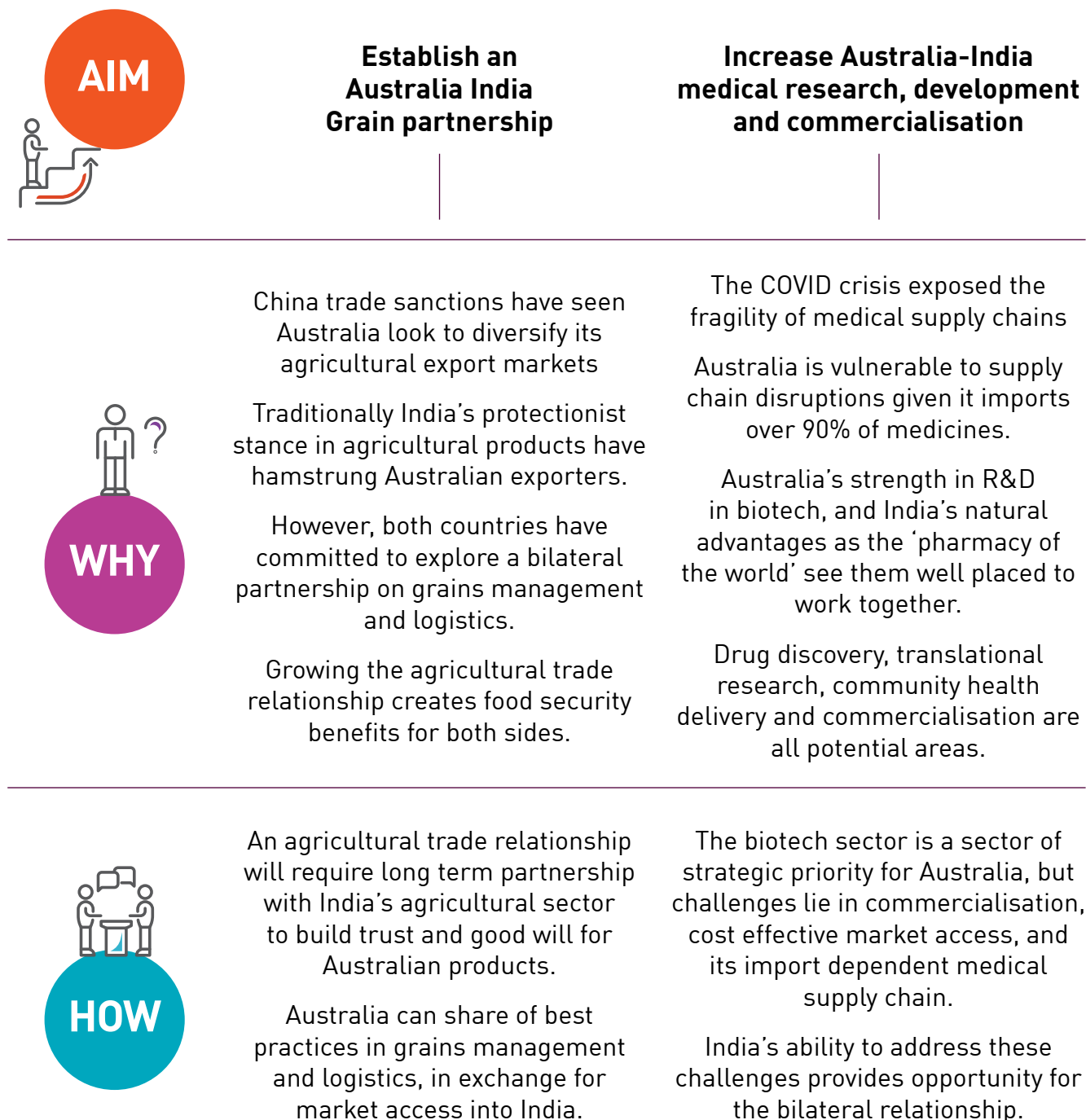
In June 2020 we saw a renewed commitment to developing the bilateral economic relationship with the elevation of the bilateral Strategic Partnership to a Comprehensive Strategic Partnership (CSP). However, strategic headwinds, commercial reality and India's current COVID-19 situation have all put the onus on Australia to lead the process. The diagram adjacent assesses developments under each of the three areas of complementarity since 2018. As the COVID-19 pandemic continues to distract policy attention, Australia will have to work harder to keep up the positive momentum. There remain implementation activities, identified by both national strategies, that are yet to be actioned but are feasible in the current economic environment. These include:

- Establishing an India-Australia Ministerial level economic dialogue to create political momentum behind needed activities
- Addressing taxation, visa and banking regulation issues identified by Indian companies in Australia that act as a barrier to two-way investment
- Exploring options for sectorally-focused trade agreements, in the absence of an economy-wide FTA.

A CHANGED GLOBAL CONTEXT REQUIRES RE-PRIORITISATION

Both the Indian and Australian strategies identify sectors of importance in a pre-COVID-19 world. In a COVID-19 normal world, it is necessary to reprioritise the sectors identified by the strategies.

Australia's closed borders policy has radically changed the context of the IES with half of the identified flagship and lead sectors, namely education and tourism falling victim to closed borders.





As India recovers from the devastating impact of the second wave of COVID-19, years of progress has been unwound as the country grapples with the significant loss of life and productivity among India's working adults. In response to the economic impacts of the pandemic the Indian government undertook bold reforms through its Atmanirbhar Bharat Abhiyaan or 'Self-reliant India campaign' which has dampened enthusiasm for liberalised trade settings but opened up new opportunities in investment.

While both strategies identified investment and knowledge based partnerships as contributing to the economic relationship, in a COVID-19 world, investment and knowledge partnerships should become the focus of bilateral efforts. While reliance on sectors dependent on the movement of people and liberalised policy settings take a back seat, investment and knowledge partnerships in agribusiness, health and critical technologies provide three ideal sectors for renewed effort.

Launch a Track 1.5 dialogue to focus on cooperating in critical and emerging technologies

Strategic competition between the US and China increasingly focuses on technology and data.

This competition is quickly spilling over into international forums, including standards-setting bodies.

Australia and India share an interest in establishing robust and open technology standards.

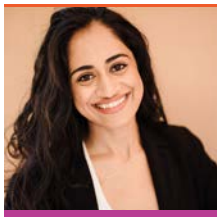
The June 2020 MOU to advance the development of critical and emerging technologies provides a starting point for collaboration

Technology partnerships will not only grow the bilateral economic relationship but aligns with both countries' strategic priorities.

Cooperation in computing, 5G and artificial intelligence should aim to ensure open standards that allow transparent participation from many countries.



ABOUT THE AUTHOR



Sonia Arakkal is a Policy Fellow at the Perth USAsia Centre. In addition to planning and coordinating a range of program and research initiatives, Sonia directs the Centre's India programs and convenes policy workshops focussed on Australia-India relations.



<https://perthusasia.edu.au/about-us/our-people/staff/sonia-arakkal>



@sonia_arakkal

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M265, 3rd Floor, Old Economics Building, The University of Western Australia, 35 Stirling Highway, Crawley WA 6009, Australia **e.** perthusasiacentre@uwa.edu.au **tw.** @PerthUSAsia
fb. PerthUSAsia **li.** [linkedin.com/company/perth-usasia-centre](https://www.linkedin.com/company/perth-usasia-centre)